



DNSP recovery of transmission-related charges

Final Rule Determination: 24 March 2011

The Distribution Network Service Provider (DNSP) recovery of transmission-related charges Rule aims to ensure that only efficient costs are passed through the annual pricing proposal process and provide regulatory certainty to DNSPs.

There is some uncertainty in the types of charges that can be recovered under the annual pricing proposal process. It is therefore important to clarify this and provide DNSPs with an opportunity to recover efficient costs.

Promoting efficient investment in electricity services and provision of electricity services to consumers

Issues raised by the Proponent

DNSPs incur costs in providing network services for the benefit of consumers. These costs are recovered through regulated prices approved by the Australia Energy Regulator (AER) in accordance with the National Electricity Rules (Rules).

As DNSPs are monopoly service providers, there needs to be some regulatory oversight to ensure that prices reflect efficient costs. This can be done through the revenue determination process which sets the level of allowed costs for the next five years.

However, some costs are not suitable for this either because they are outside of the DNSP's control and/or cannot be forecast at the start of the regulatory control period. Such costs can be included in the pricing proposal process which are approved by the AER on an annual basis.

Current arrangements

Clause 6.18.7 of the Rules only permits "recovery of charges for transmission use of system services" under the annual pricing proposal process. However, in accordance with their distribution determinations, DNSPs in the ACT, NSW, QLD and SA are currently able to recover transmission charges to be paid to transmission businesses, avoided TUOS payments and inter-DNSP payments through the annual pricing proposal process. For Victorian DNSPs, on the other hand, the AER determined in their revenue determination that these charges cannot be recovered through the annual pricing proposal process. Therefore, there is some confusion within the industry as to what charges can be recovered under the annual pricing proposal process.

Impact on consumers

The Rule as Made will have a limited impact on consumers as it clarifies the process with which DNSPs are allowed to pass through costs to consumers, and not have an impact on the consumer's total bill.

The final Rule determination

On 24 March 2011, the AEMC made its final Rule determination and final Rule for the DNSP recovery of transmission-related charges Rule change.

The Commission's final Rule determination is to make a more preferable Rule which specifies the types of costs permitted to be recovered through the annual pricing proposal process. This differs from the proposed Rule which sought for a broader definition of charges that could be recovered under this process.

For the other charges such as negotiated transmission service charges, non-regulated transmission service charges, and network support agreement payments, the Commission considered that it is more appropriate that the DNSPs seek to recover these costs under the distribution determination process or, in certain circumstances, as a cost pass through event. However, the Commission recognised that there are some justified exemptions to

The Rule as Made provides clarity for DNSPs to recover costs under the annual pricing proposal process balanced with the need for consumers to be protected.

this principle and that transitional arrangements are needed in certain circumstances. This is to ensure that DNSPs continue to have the opportunity to recover efficient costs in accordance with the terms of the existing distribution determinations.

The arrangements will commence for each DNSP in respect of its next regulatory year. Specific transitional provisions have been made for Victorian DNSPs, as they were unable to recover their permitted costs for this year because the Rule as Made will commence operation after their annual pricing proposals have been approved.

Reasons for the Commission's decision

The Commission has made this final Rule determination after carefully considering the arguments and evidence put forward in submissions and undertaking further analysis.

In coming to its final decision, the Commission has considered the different types of charges that could be recovered under the annual pricing proposal process. The Commission determined that these charges should be clearly defined, outside the control of the DNSPs and/or subject to other regulatory processes, and which cannot be reasonably forecast by the DNSP at the time the AER makes the DNSPs' distribution determination. This will also allow for certainty and transparency for DNSPs for recovery of costs under the annual pricing proposal process.

For other charges which may still be legitimate costs, the distribution determination process would allow for a rigorous economic assessment for these costs to ensure efficient costs.

The Commission considers that, taken together, clearly specifying which costs should be passed through under the annual pricing proposal process and any other legitimate costs under the distribution determination process (or, in certain circumstances, as a cost pass through event) will provide certainty to DNSPs, balanced with minimising administrative costs, and lead to efficient investment in, and efficient operation of, electricity services with respect to the price of supplying electricity. Further, ensuring that inefficient costs are not passed through the annual pricing proposal process will provide sufficient regulatory oversight and protect consumers. This will likely contribute to the National Electricity Objective in the long term interests of consumers.

The Rule as Made

Types of costs	Process to recover
Prescribed exit services charges	Pricing proposal process
Prescribed common transmission services charges	
Prescribed TUOS charges	
Bairnsdale network support agreement payments	
Avoided customer TUOS payments	
Payments between DNSPs for use of the distribution system which are charges for prescribed exit services, prescribed common transmission services and prescribed TUOS services	
Charges for standard control services from other DNSPs it incurs as a Distribution Customer	Distribution determination or cost pass through event
Negotiated transmission service charges (in general)	
Non-regulated transmission service charges (in general)	
Network support agreements payments (in general)	
Other charges	

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